



Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2003



KPMG LLP
Chartered Accountants

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Telecommunications as at December 31, 2003 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
January 28, 2004



STATEMENT OF OPERATIONS**For the year ended December 31**

(Thousands of dollars)

	2003	2002
Operating revenues	\$ 771,271	\$ 778,769
Operating expenses		
Operating expenses	509,141	492,356
Contribution and carrier costs	14,354	18,627
Depreciation and amortization	137,886	129,938
	661,381	640,921
Income from operations	109,890	137,848
Other income	2,774	2,058
Interest and related costs (Note 4)	(3,137)	(26,268)
Net income	\$ 109,527	\$ 113,638

STATEMENT OF RETAINED EARNINGS**For the year ended December 31**

(Thousands of dollars)

	2003	2002
Retained earnings, beginning of year	\$ 252,815	\$ 234,545
Net income	109,527	113,638
	362,342	348,183
Dividends	98,575	95,368
Retained earnings, end of year	\$ 263,767	\$ 252,815

See Accompanying Notes

STATEMENT OF FINANCIAL POSITION

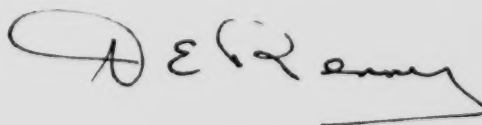
As at December 31 (Thousands of dollars)	2003	2002
Assets		
Current assets		
Short-term investments (Note 3)	\$ 13,751	\$ -
Accounts receivable	76,920	85,144
Inventories	3,208	2,799
Prepaid expenses	3,645	6,372
	97,524	94,315
Property, plant and equipment (Note 5)	820,597	841,668
Other assets (Note 6)	57,712	50,874
	\$ 975,833	\$ 986,857
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	\$ 7,345	\$ 10,925
Accounts payable	81,489	73,466
Accrued interest	5,489	5,560
Dividend payable	35,112	20,513
Service billed in advance	23,869	24,582
Current portion of long-term debt (Note 7)	31,552	3,187
	184,856	138,233
Long-term debt (Note 7)	260,015	328,614
	444,871	466,847
Province of Saskatchewan's equity		
Equity advance (Note 8)	267,195	267,195
Retained earnings	263,767	252,815
	530,962	520,010
	\$ 975,833	\$ 986,857

See Accompanying Notes

On behalf of the Board



Reg Bird



Alison Renny

STATEMENT OF CASH FLOWS

For the year ended December 31
(Thousands of dollars)

2003**2002****Cash provided by (used in):****Operating activities**

Net income	\$ 109,527	\$ 113,638
Items not affecting cash from operations (Note 9)	111,604	121,065
Other operating items (Note 10)	10,737	(905)
	231,868	233,798

Financing activities

Repayment of Province of Saskatchewan debt	(1,910)	(3,346)
Dividends paid	(83,976)	(102,612)
Short-term borrowings (repayments)	(13,425)	8,426
	(99,311)	(97,532)

Investing activities

Property, plant and equipment expenditures	(116,077)	(154,798)
Other assets	851	458
	(115,226)	(154,340)

Increase (decrease) in cash

17,331 (18,074)

Cash and cash equivalents, beginning of year

(10,925) 7,149

Cash and cash equivalents, end of year

\$ **6,406** \$ (10,925)

Comprised of:

Short-term investments	\$ 13,751	\$ -
Bank indebtedness	(7,345)	(10,925)
	\$ 6,406	\$ (10,925)

Interest Paid

\$ **29,072** \$ 30,240

See Accompanying Notes

NOTES TO FINANCIAL STATEMENTS**Note 1 -- The Corporation**

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Act, and as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the Telecommunications Act (Canada).

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 -- Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

Short-term investments

Cash and short-term investments include investments in money market instruments, which are purchased with maturity dates of less than 90 days. Short term investments are stated at cost which approximates market value.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services, and direct labour.

Depreciation and amortization is computed on the straight-line basis using rates determined by a continuing program of engineering studies for each class of property in service.

With respect to property, plant and equipment acquired, and constructed, the Corporation follows the policy of capitalizing related equipment, construction, and installation costs as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

When depreciable telecommunications property is retired, the cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation and amortization.

Revenue recognition

Revenues from local telecommunications, data, internet and entertainment services are recognized in the period the services are provided. Revenues from long distance and wireless airtime are recognized based on usage or rate plans in the period services are provided. Revenues from equipment sales are recognized at the point of sale.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

NOTES TO FINANCIAL STATEMENTS**Employee benefit plans**

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at market related value.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining service life of active employees of the plan.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Gains and losses on forward contracts and cross currency swaps used to manage exposure to foreign exchange rates are recognized on the same basis as the gains and losses on the hedged item. Gains and losses related to hedges of anticipated transactions are recognized in earnings or recorded as adjustments of carrying values when the hedged transaction occurs. Any premiums or discounts with respect to long term debt are deferred and amortized to earnings over the contract period.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 - Short-term investments

The balance represents funds invested with Holdeco at an effective average interest rate of 2.94%.

NOTES TO FINANCIAL STATEMENTS**Note 4 -- Interest and related costs**

	2003		2002	
	(Thousands of dollars)			
Interest expense	\$	28,423	\$	30,105
Foreign currency translation gains		(22,797)		(1,233)
Other		(13)		(14)
		5,613		28,858
Less sinking fund earnings		2,476		2,590
	\$	3,137	\$	26,268

Note 5 -- Property, plant and equipment

Asset	Useful life
Buildings	20-35 years
Plant and equipment	14 years
Office furniture, equipment and leaseholds	4-17 years

	Cost	Accumulated depreciation and amortization	Net book value	
			2003	2002
			(Thousands of dollars)	
Buildings	\$ 152,983	\$ 75,616	\$ 77,367	\$ 74,442
Plant and equipment	1,992,778	1,410,588	582,190	571,282
Office furniture, equipment and leaseholds	111,830	46,825	65,005	62,073
Plant under construction	82,851	-	82,851	118,784
Materials and supplies	9,020	-	9,020	11,037
Land	4,164	-	4,164	4,050
	\$ 2,353,626	\$ 1,533,029	\$ 820,597	\$ 841,668

Depreciation and amortization for the year totaled \$137,198,820 (2002 - \$129,557,314).

NOTES TO FINANCIAL STATEMENTS**Note 6 -- Other assets**

	2003	2002
	(Thousands of dollars)	
Deferred pension costs (Note 12)	\$ 51,573	\$ 44,031
Competition implementation costs	3,015	3,866
Unamortized debt issue charges	751	738
Other	2,373	2,239
	\$ 57,712	\$ 50,874

Depreciation and amortization for the year totaled \$687,373 (2002 - \$380,774).

Note 7 -- Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2003	2002
			(Thousands of dollars)	
Province of Saskatchewan				
Canadian dollar issues	1 to 5	10.81	\$ 95,930(a)	\$ 75,151
Canadian dollar issues	6 to 10	6.15	60,000	80,779
Canadian dollar issues	26	5.00	35,000(b)	35,000
U.S. dollar issue	17	9.38	129,650(c)	157,760
			320,580	348,690
Less sinking funds			30,004(d)	31,323
Total Province of Saskatchewan debt			290,576	317,367
Due to Holdec			-	13,425
Other			991	1,009
Total long term debt			291,567	331,801
Less current portion of long-term debt			31,552	3,187
			\$ 260,015	\$ 328,614

(a) Long-term debt totaling \$95,930,000 is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

(b) Long-term debt totaling \$35,000,000 contains a one-time redemption provision exercisable on March 5, 2006, whereby the investor may redeem the debt. The debenture pays interest at 5% to March 5, 2006 and 5.6% thereafter.

NOTES TO FINANCIAL STATEMENTS

- (c) Represents long-term debt repayable in U.S. funds having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 2003 of 1.2965 (2002 - 1.5776).
- (d) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the outstanding balances of long-term debt received. The sinking funds include investments having a U.S. dollar value of \$21,650,740 recorded at \$28,070,185 Canadian dollar equivalent.

Sinking fund installments and long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)	
2004	\$	30,853
2005	\$	1,897
2006	\$	34,495
2007	\$	15,494
2008	\$	22,676

Note 8 -- Equity advance

The Corporation's equity financing is in the form of equity advances of \$250,000,000 (2002 - \$250,000,000) from CIC and \$17,195,000 (2002 - \$17,195,000) from Holdco.

Note 9 -- Items not affecting cash from operations

	2003	2002
	(Thousands of dollars)	
Depreciation and amortization	\$ 137,886	\$ 129,938
Pension income on defined benefit plan	(549)	(4,906)
Foreign currency translation gains	(22,797)	(1,233)
Sinking fund earnings	(2,476)	(2,590)
Other	(460)	(144)
	\$ 111,604	\$ 121,065

Note 10 -- Other operating items

	2003	2002
	(Thousands of dollars)	
Changes in non-cash working capital:		
Accounts receivable	\$ 8,223	\$ 6,726
Inventories	(409)	2,442
Prepaid expenses	2,677	585
Accounts payable	8,023	(12,293)
Accrued interest	(71)	(6)
Service billed in advance	(713)	1,641
Contributions to defined benefit pension plan	(6,993)	-
	\$ 10,737	\$ (905)

NOTES TO FINANCIAL STATEMENTS**Note 11 -- Financial instruments****Credit risk**

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk. In addition, the Corporation does not anticipate non-performance by any counterparties to its derivative financial instruments. The Corporation deals only with those financial institutions whose credit rating is A or better, and monitors the credit risk and credit standing of counterparties on a regular basis. The Corporation manages its exposure so that there is no substantial concentration of credit risk resulting from cross currency swaps and forward contracts.

Currency exposure

The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments.

At year end, the Corporation has no outstanding derivative instruments.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgement and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

At year-end, the carrying value of all financial instruments approximates fair value with the following exceptions:

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(thousands of dollars)				
Equity in sinking funds	\$ 30,004	\$ 31,204	\$ 31,323	\$ 33,991
Long-term debt, Province of Saskatchewan	320,580	400,246	348,690	448,838

Note 12 - Employee benefit plans

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1977. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of December 31, 2001.

Results from the latest valuation as at December 31, 2001 projected to December 31, 2003, and the major assumptions used in the valuation are provided below.

Economic assumptions	2003	2002
Discount rate	6.20%	6.20%
Expected return on plan assets	7.25%	7.25%
Inflation rate	2.20%	2.20%
Expected salary increase	2.20%	2.20%
Post-retirement index (not to exceed 2%)	100% of CPI	100% of CPI

NOTES TO FINANCIAL STATEMENTS

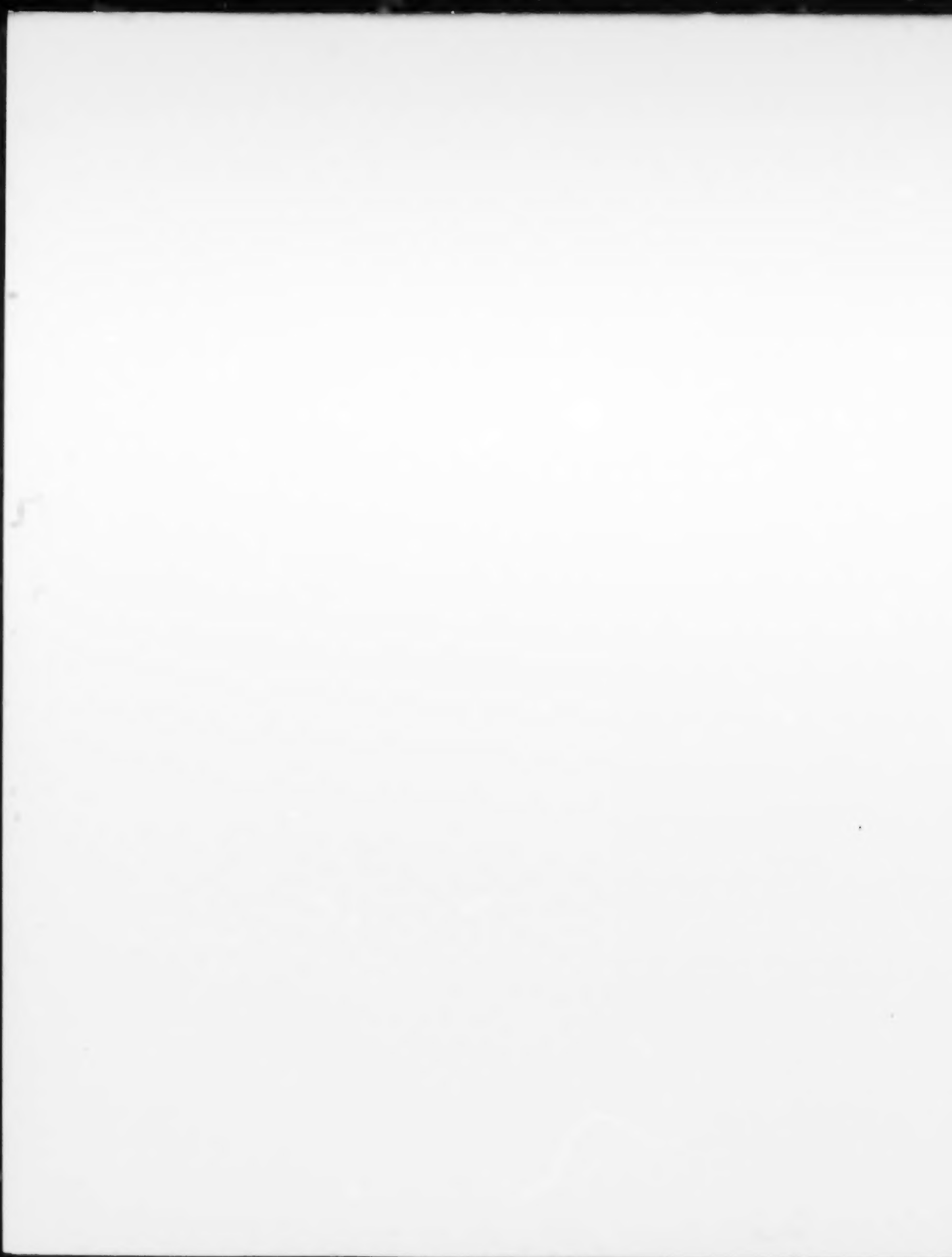
Pension income	2003	2002
	(Thousands of dollars)	
Current service cost - defined benefit plan	\$ (7,260)	\$ (6,239)
Interest cost	(49,230)	(49,536)
Expected return on pension plan assets	53,825	53,103
Amortization of net transitional asset	11,651	11,651
Amortization of past service costs	(4,105)	(4,105)
Amortization of actuarial loss	(4,332)	-
Pension income	\$ 549	\$ 4,874

Accrued benefit obligation	2003	2002
	(Thousands of dollars)	
Accrued benefit obligation, beginning of year	\$ 805,335	\$ 741,251
Current service cost	9,825	8,817
Plan amendments	-	-
Interest cost	49,230	49,536
Benefits paid	(42,187)	(43,205)
Change in assumptions	-	48,936
Accrued benefit obligation, end of year	\$ 822,203	\$ 805,335

Plan assets	2003	2002
	(Thousands of dollars)	
Fair value of plan assets, beginning of year	\$ 687,127	\$ 749,192
Actual return on plan assets	70,295	(21,473)
Employer contributions	6,993	35
Employee contributions	2,565	2,578
Employer withdrawal	-	-
Benefits paid	(42,187)	(43,205)
Fair value of plan assets, end of year	\$ 724,793	\$ 687,127

Deferred pension costs	2003	2002
	(Thousands of dollars)	
Funded status - surplus (deficit)	\$ (97,410)	\$ (118,208)
Unamortized transitional asset	(62,099)	(73,750)
Unamortized past service costs	21,884	25,989
Unamortized net actuarial losses	189,198	210,000
Deferred pension costs	\$ 51,573	\$ 44,031

The Corporation also has employees who are members of the Public Employees Pension Plan, which is a defined contribution pension plan. The 2003 pension expense and employer contributions for the Public Employees Pension Plan are \$11,126,115 (2002 - \$10,302,498).



NOTES TO FINANCIAL STATEMENTS**Note 13 -- Related party transactions**

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2003	2002
	(Thousands of dollars)	(Thousands of dollars)
Operating revenues	\$ 62,808	\$ 63,987
Operating expenses	58,839	57,076
Accounts receivable	14,589	13,655
Accounts payable	5,986	9,321
Property, plant and equipment expenditures	289	849
Other assets	374	-

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 14 - Commitments and contingencies

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2004	\$ 23,103
2005	\$ 23,399
2006	\$ 23,651
2007	\$ 24,287
2008	\$ 24,601

The above payments include \$20,938,650 for leases with related parties.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2003 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

Note 15 -- Comparative figures

2002 figures have been reclassified to conform to current year's presentation.

